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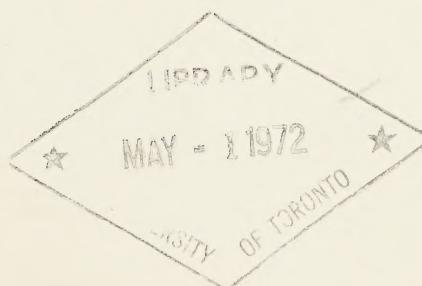
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Local Security Series

No 19

THE MEASUREMENT OF **poverty**



A PUBLICATION OF THE DEPARTMENT OF NATIONAL HEALTH AND WELFARE, CANADA

Research and Statistics Division



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THE MEASUREMENT OF POVERTY

Memorandum 19 - Social Security Series

(4)

Social Security Research Division
Research and Statistics Directorate

Published by authority of
the Honourable John Munro
Minister of National Health and Welfare

Joseph W. Willard
Deputy Minister of National Welfare

FOREWORD

In recent years considerable interest has been expressed in the problem of defining and measuring poverty and determining what might be considered a minimum adequate level of living. In 1966 the Senate Committee on Aging suggested the development of "a socially acceptable minimum budget" for single persons and elderly couples to be used in determining the appropriate level of income security for the aged. Several departments of the Federal Government in 1968 expressed an interest in the question of minimum living standards, and the Research and Statistics Directorate undertook to conduct several background studies of the problem within the framework of its continuing study of poverty in Canada.

Two of the papers that have been prepared in connection with this research program are presented as Parts I and II of The Measurement of Poverty. A companion Study entitled Monthly Budgets for Items of Basic Need under Social Assistance Programs was published in March 1969.

Part I, the Historical Development of Concepts and Measurement of Minimum Living Standards, attempts to outline the historical development of concepts and measurements of minimum living standards. The paper analyzes theories of earlier and present researchers including Engel, Twining, Rowntree, Booth, Townsend, Orshansky, Fuchs, and Podoluk.

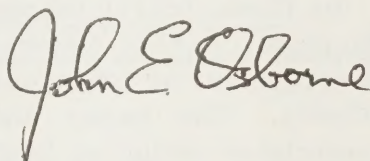
By contrasting and evaluating these concepts and definitions of poverty within the historical context, an attempt is made to show the development of the concept of poverty from the subsistence concept of the 19th century to the prevailing view of poverty as relative deprivation.

Part II, Family Budgets in Canada, attempts to assess the methods used in constructing low income family budgets and to determine how adequate they are for measuring poverty.

To make a valid assessment of the methods used, this study describes, compares and evaluates the construction as well as the adequacy of family budgets developed by the social planning agencies in the two largest metropolitan areas in Canada. The Canadian methods used are then compared with those of the Bureau of Labour Statistics of the United States Department of Labour.

The Directorate wishes to acknowledge the useful information received from Miss Mollie Orshansky of the United States Social Security Administration, Mrs. Helen Lamale of the United States Bureau of Labour Statistics, and Miss Jenny Podoluk of the Dominion Bureau of Statistics, whose comments proved to be most useful in preparing the first paper. Valuable information used for the preparation of the second paper was provided by Mr. Henry Seward, Research Director of the Social Planning Council of Metropolitan Toronto, and Mrs. Agnes Higgins of the Montreal Diet Dispensary. The Directorate gratefully acknowledges their useful contribution.

This paper was prepared by Dr. Otto Wayand, Supervisor of the Income Maintenance Section in our Social Security Research Division under the general direction of the Principal Research Officer, Mr. J.I. Clark.

A handwritten signature in dark ink, reading "John E. Osborne". The signature is written in a cursive style with a large, stylized "J" and "O".

John E. Osborne,
Director, Research and Statistics.

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PART I

HISTORICAL DEVELOPMENT OF CONCEPTS AND MEASURES
OF MINIMUM LIVING STANDARDS

by Dr. Otto Wayand

Social Security Research Division
Research and Statistics Directorate

HISTORICAL DEVELOPMENT OF CONCEPTS AND MEASURES
OF MINIMUM LIVING STANDARDS

By the end of the 19th century, many countries in Europe had enacted poor laws but these statutes failed to define the degree of poverty which gives claim to relief. In fact, one of the early researchers on the subject, Louise Twining, The Guardian of the Poor at Kensington, wrote in 1881 about this difficulty in defining poverty "Destitution is everywhere stated to be the definition and the test, but as far as we are aware, the exact understanding and interpretation of this term has yet to be given".(1) She compared the legislation on poverty of most European countries and found that nearly everywhere distress from incapacity for work, mental imbecility, sickness or old age had a legitimate claim to public support. Thus the poor were considered eligible for assistance outside the work-house only when they were disabled or elderly but not when they were able-bodied. Louise Twining was not too much concerned about defining and studying a minimum living standard. Her main purpose was to criticize the English "outdoor relief system" i.e. (relief given to persons outside the work-house) which she thought would have disastrous effects on the country. Reflecting the thinking of her time she thought that this practice would have catastrophic results because "the dread of poverty is diminished and he who is half poor works less instead of more so that he speedily becomes a complete pauper". She was also concerned about the country's morals and said "The morality of the poor man suffers, for he looks upon his provision as a right, for which he therefore need not be thankful. And the morality of the rich man suffers, for the natural moral relation between him and the poor man has become completely severed, there is no place left for the exercise of his benevolence, being obliged to

(1) Louise Twining: Poor Relief in Foreign Countries and Outdoor Relief, London 1881, pp. 19-23.

give, he gives with reluctance and thus is the highest principle of charitable action, Christian love, exposed to great danger of destruction."(1)

The first attempts in defining poverty were undertaken by Engel in Germany, Seeborn Rowntree, and Charles Booth in England towards the end of the 19th century.

ERNST ENGEL

Ernst Engel (1821-96), a disciple of the German liberal school, was one of the first statisticians who believed in the application of the quantitative method to the study of social phenomena. He was the first to demonstrate the fruitfulness of the use of statistics in the study of consumption. He calculated and examined the proportions of the types of expenditures in the family budgets of workmen and deduced the law of consumption known as Engel's law which still is used by economists as a quick way to assess the relative well-being of dissimilar groups. As generally formulated, that law states: that as income increases, families spend more money for food, but this larger amount takes a smaller share of income, leaving proportionately more funds for other things. Accordingly, a low percentage of income going for food can be equated with prosperity and a higher percentage with deprivation. Expressed in more technical terms the law simply states that income elasticity of demand for food is less than one. He also devised a new measure of consumption taking unity as the value of consumption for a child of up to one year of age and adding 0.1 for every further year up to the age of 20 for women and 25 for men at which time they measure 3.0 and 3.5 respectively.(2) He used this method in a comparative study of Belgian workmen's budgets and found a considerable increase in the living standard between 1853 and 1891. He attempted also to establish a standard of living called "Volkswohlstand" which he stated to be that level of well-being at which people spend a maximum of 80 per cent of their income for "reasonable"

(1) Ibid.

(2) Ernst Engel, Der Werth des Menschen (Berlin, 1883)

satisfaction of physical needs with the remainder to be spent for higher cultural satisfaction. This form of standard of living was taken over and used in a modified form by many studies dealing with standards of living and poverty lines. After the general acceptance of Engel's law, a number of unsuccessful attempts were made to find similar laws for other categories of necessities such as shelter and clothing. However the demand for these two separate categories is subject to so many factors that regular patterns of demand are difficult to determine.

While Engel was the first social scientist to derive meaningful relationships from seemingly arbitrary observations of family budgets, his theories could not be developed in his days. It was not until social researchers began to understand the significance of results that can be obtained from analysis of budget data and until more sophisticated statistical techniques become available that studies could be undertaken to investigate the relationship on how the expenditure on or the consumption of a particular commodity varies with the income level of families. By using econometric analysis a number of consumption studies are being made which are based on Engel's law. Such studies are particularly useful for social and economic development programs, the construction of cost of living index numbers and the comparison of living standards.

CHARLES BOOTH

In England, Seebohm Rowntree and Charles Booth did pioneering work in defining poverty lines. Both Rowntree and Booth recognized that there is no universal and absolute definition of poverty and that its meaning was relative as to place and time. They agreed that poverty must be related to some minimum standard of economic welfare based on provision of the primary needs of the people concerned. Charles Booth defined poverty in terms of income, "By the word 'poor' I mean to describe those who have a sufficiently regular though bare income, such as 18s. to 21s. per week for a moderate family".⁽¹⁾

(1) Charles Booth, Life and Labour of the People in London, Series 1, Volume 1, page 33 (London 1889-91). There is no evidence as to the bases for this poverty line.

He added that the incomes of the poor are nearly always exceeded by their admitted expenditure. The explanation may lie in the understating of regular earnings, the use of credit met either by final evasion of repayment or by some windfall of income received outside regular earnings.

B.S. ROWNTREE

Rowntree was the first to attempt a more adequate determination of poverty. In his first study of poverty in York in 1899⁽¹⁾ he estimated the cost of buying those goods and services which at that time were absolutely necessary for the maintenance of merely physical efficiency.⁽²⁾ To do this he drew up a list of necessities under the headings of food, clothing, fuel and household sundries and estimated how much it would cost to buy these. His estimates were based on interviews with a number of working class families. Families whose incomes were too low to enable them to purchase these necessities were said to be living in primary poverty. People said to be living in secondary poverty were those who had adequate income to purchase these necessities but who through mismanagement could not make ends meet and who were in the judgement of the interviewers living in visible poverty.

To estimate a required subsistence income, Rowntree made an inquiry into the quantity and kinds of food necessary to maintain families of various sizes in a state of physical efficiency. In order to do this he used a number of food studies prepared by experts in nutrition. His estimates were based upon the assumption that the necessary diet is selected with a careful regard to the nutritive values of various food stuffs and that these are all purchased at lowest current prices. To limit the quantity and quality of the food to a minimum he allowed for a diet less generous in quality and variety than that supplied to "the able-bodied paupers in work-houses".⁽³⁾ He limited the

(1) Rowntree: A Study of Town Life, London 1901.

(2) Rowntree does not define the expression "merely physical efficiency".

(3) Rowntree: Study of Town Life, London 1901.

clothing allowance to that absolutely necessary for health. In order to determine rents he ordered a survey of rents paid by working classes. His minimum weekly budget for a family of two adults and three children was the following:

Food	12s 9d	59 per cent
Rent	4s	18 " "
Clothing	4s 11d	23 " "
	<hr/>	<hr/>
	21s 8d	100 per cent

Rowntree conducted two subsequent surveys at York, one in 1936 and one in 1950. In each of these studies he adopted progressively more liberal yardsticks and extended his budget to include new components.

(a) Food Budget

In establishing a minimum food standard Rowntree anticipated that the work of nutritionists would be used increasingly in social services. In his first two surveys he leaned heavily on the work of the American nutritionist Atwater⁽¹⁾ who in 1895 published a nutrition study which was based on the number of calories found to be required at different periods of physical development and under varying requirements for muscular activity in varying types of occupation.

In his latest study of 1950 Rowntree based his survey on the report of the British Medical Association⁽²⁾ dealing with nutritional needs. Having obtained nutritional requirements Rowntree then translated these into the cheapest possible diet. Rowntree also assigned certain factors representing the nutrients required by children of different ages and women as compared with adult men.

(1) W.O. Atwater: Dietary Studies in New York City in 1895 and 1896.

(2) Report of the Committee on Nutrition, London, British Medical Associates, 1950.

The various factors which he has adopted are as follows:

Men			10/10
Women			8/10
Boys	14 to 16	=	8/10
Girls	14 to 16	=	7/10
Children	10 to 13	=	6/10
Children	6 to 9	=	5/10
Children	2 to 5	=	4/10
Children	0 to 2	=	3/10

He was of the opinion that by the use of these factors the food consumed by any given family can be readily expressed and the nutrient required for families of varying sizes can be easily compared.

In establishing the cost of food he investigated cash prices paid for various foodstuffs by the working classes.

He took into account that the poor buy their food in small quantities and thus pay a higher price for it. The average of these prices had been adopted in estimating the cost of the standard diet except in those cases where the articles could be purchased at lower prices in co-operative stores.

(b) Rent

In estimating the necessary minimum expenditure for rent, Rowntree would have preferred to take some reliable standard of the accommodation required to maintain families of different sizes in health and then to take as the minimum expenditure the average cost of such accommodation. This method however would have assumed that every family could obtain the needed minimum accommodation which was far from being the case. In view of the difficulty of

estimating the rent of standard accommodation, Rowntree chose to use current rental payments as the basis for the necessary minimum expenditure. By choosing this latter method, he accepted the then current conditions instead of developing a minimum standard for shelter.

(c) Household Sundries

Expenditures involving clothing, fuel and light were estimated on the basis of information collected from a number of working people. In 1936 and 1950, 29 families were interviewed to ascertain how much they spent on clothing and various other items. The poverty line was then based on the average expenditure of the three families whose expenditures on these items were the lowest.

(d) Personal Sundries

Provision was made to include personal sundries in the 1936 and 1950 budgets, and included insurance premiums, trade union dues, newspaper subscriptions, transportation, reading and writing materials and radio. The estimates as to what should be included and their costs were based on a number of interviews but the final results reflected Rowntree's decisions and value judgements.

Evaluation of the Rowntree Method

While on the face of it, the method used by Rowntree seems to be well founded, his approach has several limitations. The reports of the British Medical Association indicate that calculations of nutritional requirements are rough estimates and that calculation of protein and vitamin requirements as well as desirable intakes of calcium and iron are still a matter of guess work.⁽¹⁾ In addition, later

(1)

Ibid.

social researchers point out that the determination of the income needed to purchase nutrition for the maintenance of physical efficiency is at best a risky exercise since nutritional content of certain foodstuffs varies from place to place and from season to season.

It is also doubtful whether poor families have the knowledge or opportunity to purchase a diet that gives adequate nutrition at the lowest possible cost.

The main shortcoming of Rowntree's budget was that his value judgements were arbitrary in the determination of basic needs.

The fact remains, however, that Rowntree did much to awaken Britain's social conscience and to reveal the deprivations of the poor. The principles developed by Rowntree at the end of the last century are still broadly followed by contemporary social scientists and governments. When devising a new system of social security in England, Lord Beveridge recognized Rowntree's "subsistence" standard, with the result that the rates paid under National Assistance after the second World War bore a close resemblance to the standards which Rowntree had used in his 1936 survey.

PETER TOWNSEND

Peter Townsend wrote a number of articles on the development of a minimum living standard. The aim of his first article "Measuring Poverty"⁽¹⁾ is to consider how detailed knowledge can be acquired about the living conditions for the poor. First, he examined the past standards developed for measuring poverty especially those developed by Rowntree. He found Rowntree's standard too arbitrary.

If clothing, money for travel to work and newspapers are considered to be necessities in the conventional sense why not tea, handkerchiefs, laundry, contraceptives, cosmetics, hairdressing, shaving and life insurance payments? Are we indeed so sure that the list of necessities must

(1)

Peter Townsend, "Measuring Poverty" British Journal of Sociology, Vol. 53 (1954) pp. 130-137.

exclude cigarettes, beer, toys for children,
Christmas gifts and cinema entertainment?(1)

The question of what was regarded or what ought to have been regarded as necessities was very rarely raised in any of Rowntree's surveys. In Townsend's opinion the only defensible constituent of a poverty budget is the amount allocated to food, but even with this approach there is a lack of relationship of the budget to the customs and habits of the working people.

How those on the borderline of poverty ought to spend their money is a very different thing from how they do spend their money. It would be unrealistic to expect them, as in effect many social investigators have expected them to be skilled dieticians with marked tendencies toward puritanism..... In considering the spending habits of poorer people, it seems that due regard must be paid to the conventions sanctioning membership of their community, to the influence of economic and social measures currently adopted by society as a whole, such as rationing, welfare, food services, food subsidies and indirect taxes and to the standards encouraged (2) by advertisers, the press, the BBC and the church.

Townsend suggests the following procedure for new studies:

1. The collection of data relating to the food consumption and expenditure as well as the income of working class people.
2. The comparison of these data, assembled according to constitution of household and income group, with a scale of nutritive needs.....
3. The isolation, from all those securing minimum nutrition of, say, the 25 per cent in the various household groups who

(1) Ibid.

(2) Ibid.

achieve it on the smallest incomes, or rather, the smallest incomes less one or two fixed involuntary overheads, such as rent and compulsory insurances. The average total expenditure of these households, less the overheads, according to their different sizes, can be taken as the poverty line.⁽¹⁾

He justifies the resulting standard on the ground that it is attained by a fair proportion of working class people and therefore realistic. He thinks that the application of the method would obviate the need for subjective decisions about money required for clothing and other budget components. He agrees that the method suggested is basically one of measuring the extent of malnutrition "not attributable to wasteful spending" but he thinks that if the results given were correlated with findings based on housing standards, education etc., it would yield a realistic picture of poverty.

In another article written in 1962 "The Meaning of Poverty"⁽²⁾ Townsend restated his main thesis that both poverty and subsistence are relative concepts and that they can only be defined in relation to material and historical resources available at a particular time to the members of a particular society. He repeated his criticism on the subsistence concept as used by earlier writers, mainly Rowntree, and even questioned the approach he (Townsend) had suggested in his earlier article based on the calculation of nutritional requirements. He now points out that it is important to remember that the estimation of income needed to purchase minimum nutrition is a hazardous exercise.... "calculations of nutritional requirements are rough estimates subject to wide margins of error"⁽³⁾. In recommending new approaches to solve the problem of measuring poverty, he suggests the return to the relative concept of defining

(1)
Ibid.

(2)
Peter Townsend, "The Meaning of Poverty" British Journal of Sociology, Vol. 13 (1962), pp. 210-227.

(3)
Ibid.

"necessaries" as done by Alfred Marshall⁽¹⁾ and Adam Smith⁽²⁾. He also suggests the studying of expenditure patterns of those who suffered a reduction in income in relation to the previous standards of living to find out what individuals actually treat as expendable and as necessities.

Using Galbraith's quotation from his Affluent Society: "People are poverty stricken when their income, even if adequate for survival, falls markedly behind that of the community", Townsend suggests that a possible definition of poverty could be developed on the basis of measuring how many households have a total income of less than 50 per cent of the average.

He suggests other measures of poverty such as the differential enjoyment of housing standards and educational resources by different classes and types of households. His concluding remarks are "our general theory then should be that individuals and families whose resources, over time, fall short of the resources commanded by the average individual or families in the community in which they live, whether that community is a local, national or international one, are in poverty."⁽³⁾

(1)

Alfred Marshall said in 1890 "...differences in climate and differences in custom make things necessary in some places, which are superfluous in others.... But....a careful analysis had made it evident that there is for each rank of industry, at any time and place, a more or less clearly defined income which is necessary for merely sustaining its members; while there is another and larger income which is necessary for keeping it in full efficiency... Every estimate of necessities must be relative to place and time." A. Marshall, Principles of Economics, London 1946, pp. 68-70.

(2)

Adam Smith wrote two centuries ago, "by necessities I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without." A. Smith, The Wealth of Nations, Book 5, Ch. 2, Part 1, 1776.

(3)

Peter Townsend, "The Meaning of Poverty" British Journal of Sociology, Vol. 13 (1962), pp. 210-227.

A joint study⁽¹⁾ was constructed by Townsend and Abel-Smith to find out the number and characteristics of persons with low levels of living from family expenditure surveys, carried out in 1953-54 and 1960 by the Ministry of Labour. Another purpose of this study was to examine the differences in levels of living that existed among households of similar size and composition. The principal measure of poverty used is the level of living of National Assistance Board applicant in each of these years. Townsend's usage of this measure did not imply that this level of living was an appropriate measure or that the households of different composition living at national assistance standards have comparable levels of living. He did indicate that regardless of what could be said of the adequacy of this measure, it did have the advantage of being an official operational definition of a minimum living at any particular time.

In this study Townsend repeats his criticisms on the subsistence standard used by earlier writers. "Saying who is in poverty is to make a relative statement - rather like saying who is short or heavy. But it is also a statement of a much more complex kind than one referring to a unilineal scale of measurement".⁽²⁾ He does not make any suggestions about how to define poverty nor does he recommend new methods for its measurement.

In talking about implications for government information and research, he mentions the need for social information about the poorest section of the population. He says that no government can expect to pursue national policies in social security and welfare unless information about living conditions, particularly the living conditions of the poor, is regularly collected, analyzed and reported.

In Townsend's opinion the government should develop various standards to indicate need. This applies to nutritional as well as environmental requirements such as housing. The government should also collect information

(1) B. Abel-Smith and Peter Townsend, The Poor and the Poorest, Occasional Papers on Social Administration, No. 17, S. Bell and Sons, Ltd., London.

(2) Ibid.

regularly from family expenditure surveys. The purpose of these surveys should be not only to show general trends, but also to indicate particular circumstances of poor families as compared to those of middle and high income classes. Information should also be collected on those groups who usually do not respond to surveys. Complementary reports to family expenditure surveys should be published showing sources of income, incomes and expenditures of families receiving social benefits and of families with special problems. Finally the government should attempt to improve family expenditure surveys to the extent that they can be reliably used to describe the socio-economic conditions of particular groups of the population.

Evaluation of Townsend's Proposals

Summarizing Townsend's views in developing a minimum living standard we find that he develops two main thoughts. One is that in drawing poverty lines, the budget maker has to avoid arbitrary decisions about people's basic needs. The second is that since poverty is a relative concept it should be measured in relative rather than absolute terms.

In his first article "Measuring Poverty" he criticizes the subsistence level used by earlier writers. His main criticism is directed against the arbitrary method of determining necessities. However, he appears to accept their basic approach, namely: to base the calculation of the poverty line on food requirements because "nutritional needs are more susceptible of measurement than clothing, fuel and other needs". In his second article "The Meaning of Poverty" he questions his basic approach mentioned above and recommends "that instead of seeking the minimum cost of adequate nutrition and finding how many families do not have an income sufficient to meet this cost, we could study random samples of the population to find which and how many families and at what level of total income, only just achieve or fall short of a certain level of nutrition". He does not give any explanation about how the studying of random samples of the population would give an indication of the number of people falling short of a certain level of nutrition nor does he define this level of nutrition. In this article he also suggests other relative concepts such as the level of education as possible approaches.

In his third paper The Poor and the Poorest he did not define poverty. Instead, out of necessity, he used the level of living of National Assistance Board applicants to indicate the poverty line. In the same paper he also recommended the development of various standards to indicate need but does not indicate how this should be carried out.

DEVELOPMENT OF A MINIMUM LIVING STANDARD
IN THE UNITED STATES

In the United States a number of studies have been prepared recently to define a minimum living standard. A poverty formula was advanced by the President's Council of Economic Advisers in their 1964 Annual Report. This formula classified as "poor" a family if its annual income was under \$3,000 and a single person if his annual income was below \$1,500. Because of regional differences in the cost of living and other factors the Council noted that these were crude and approximate measures. Another yardstick which could be used in defining and measuring poverty is based on the "market basket" approach in terms of food, clothing, shelter and services. This kind of yardstick gives a more precise definition of poverty than an income bench mark because it forces the community to spell out a minimum standard of living for different groups and individuals. It leads to the identification of goods and services that compose the market basket, and the people living in poverty can be defined as those whose incomes are too small to acquire the market basket. Among the studies prepared to develop such a market basket, Mollie Orshansky's approach described in her paper "Counting the Poor"⁽¹⁾ can be considered one of the most important. It was her method that was adopted by the Office of the Economic Opportunity as a working tool pending completion of further research.

The Orshansky Approach

In developing a minimum living standard, Miss Orshansky based her calculations on the amount of money

(1)

Mollie Orshansky: "Counting The Poor. Another Look at the Poverty Profile" Social Security Bulletin, Washington, Vol. 28, No. 1, Jan. 1965.

needed to purchase the food for a minimum adequate diet as determined by the food consumption studies made by the Department of Agriculture. This food budget is the lowest that could be devised to contain all essential nutrients using foods readily available in the U.S.A. The minimum standard or poverty line was then calculated at three times the amount needed to purchase the components in this food budget.

The food budgets are based on food plans prepared by USDA. These plans represent a translation of the criteria of nutritional adequacy into quantities and types of food compatible with the preference of families as revealed in food consumption studies. The food budgets and the derivative poverty incomes were estimated in detail for families of differing size and composition. Allowances were made for the lower cash requirements of families on farms who can produce some of their own food.

To solve the problem of translating food costs into total income requirements Miss Orshansky used the principle of Engel's law which states that the smaller the family income the greater the proportion of income spent on food. She assumed that the equivalent levels of adequacy were reached when one-third of total income was sufficient to purchase an adequate diet. This assumed proportion of income required appears to be subject to an arbitrary decision. Her decision was based partly on a value judgment and partly on a study made in 1960-61 which revealed that families with incomes of \$6,000 and more spent on the average 23.5 per cent of their aggregate income for food. Miss Orshansky estimated the food budgets and the derivative income cut-off points in detail for families of different size and composition with a farm - nonfarm differential for each type.

Similarities in the Orshansky and Townsend Methods

Miss Orshansky, as mentioned earlier, in establishing her method took advantage of the existence of a minimum food standard with regional variations as established by USDA. Townsend has indicated in his booklet The Poor and the Poorest that he too favours the collection and usage of similar information. It is also assumed that

he would take into account family size and composition when measuring poverty as well as the differences in the cost of living in urban and rural areas, in the same way as developed by the Orshansky method. It appears then that the main difference in the two methods used is that Miss Orshansky calculates poverty line incomes by multiplying the actual cost of the food budget by three, a factor based partly on the actual relationship between food and total expenditures indicated in expenditure surveys and partly by value judgement. Townsend on the other hand proposes to isolate data on incomes of 25 per cent of those working class families who achieve or live up to the minimum food budget on the smallest incomes. He takes, then, the average total expenditure of those households, according to their different sizes and compositions as the poverty lines.

Both methods contain a number of value judgements. For the Orshansky method this is in the assumed one-third food-income relationship. In the Townsend method on the other hand the value judgement lies in the selection of lowest spending average of 25 per cent of the working class people, probably representing the lower one-third of all income groups whose average spending will determine the poverty line.

While the Townsend method appears to be less arbitrary than most other approaches, it will be recalled that he moved away from his original proposal of defining poverty in absolute terms because he feels that poverty is a relative concept and should be measured in relative terms.

Redefining poverty in relative terms (Victor R. Fuchs)

Victor R. Fuchs ⁽¹⁾ in an article on "Redefining poverty and redistributing income" proposes that we define as poor any family whose income is less than one-half the median family income. He suggests that in implementing such measures it would be necessary to modify the national standard to take account of family size and composition, regional variations and other relevant variables. The

(1)

Victor R. Fuchs: "Redefining Poverty and Redistributing Income", Public Interest, No. 8, Summer 1967, pp. 88-95.

author agrees that the use of any fraction of the median income is an arbitrary decision, but he points out that the selection of the actual proportion should be established openly through the political process and as a national value judgement. He thinks that such a process would be preferable to the present approach "which is subject to political manipulation under the guise of technical budget studies".⁽¹⁾ The main advantages of the method is that it provides a poverty standard that changes with the growth of real national income instead of static subsistence budget based on contemporary standards which will be soon out of date. It focuses attention on the distribution of income and provides a realistic basis for appraising the success or failure of government anti-poverty programs. The proponents of the income distribution approach also maintain that there are powerful arguments of different nature in favour of redistributing income especially from raising the productive ability of the poor. Thus "if we define poverty as having much less than anybody else, then we must measure progress by the extent to which we have been able to alter distribution of income at the lower end of the scale. By this standard.... we have not made any progress at all in the postwar years".⁽¹⁾ From a quite different point of view the main advantages of the method is its simplicity and its relatively low development cost, since most of the data needed on incomes is being collected regularly.

Those who favour the market basket method point out that this approach concentrates too much on income distribution, per se, and leads to the promotion of income guarantee programs. They also think that the method would not show with certainty who are the poor since they would be lumped together in the lower fraction of the income distribution. Professor Oscar Ornati⁽²⁾ says that "if we define the poor as making some part of the bottom of the income distribution, some kind of lower fifth, eight, tenth or whatever fraction you will, their actual permanence is guaranteed."

(1) Victor R. Fuchs: "Redefining Poverty and Redistributing Income", Public Interest, No. 8, Summer 1967, pp. 88-95.

(2) U.S. Congress, Resolved that the Federal Government should guarantee a minimum annual cash income to all citizens, 1967 Washington: U.S. Government Printing Office, p. 25.

DEVELOPMENT OF THE MINIMUM LIVING STANDARD IN CANADA
(J.R. Podoluk)

In Canada Miss J.R. Podoluk prepared a paper on the "Characteristics of Low Income Families"⁽¹⁾ in which she estimates the number of low income families and provides information on the characteristics of families living in poverty. In defining poverty she follows Miss Orshansky in adopting some modified version of Engel's law. As did Ernst Engel and Mollie Orshansky, she too measures the well-being of families by the discretionary income left after expenditures on basic necessities. She considers families as being poor if they allocate more than 70 per cent of the family income to expenditures on necessities. She bases her judgement on the examination of data derived from the 1959 Family Expenditure Survey which indicates that, on the average, families of different sizes and incomes allocate about half their incomes for buying shelter, food and clothing.⁽¹⁾ "It has been assumed that where expenditures on these components were well above average and accounted for 70 per cent or more of family income available these families might have difficulty in managing to meet all of their needs out of their incomes." She found that unattached individuals with incomes below \$1,500, a family of two with less than \$2,500, and families of 3,4,5 or more with less than \$3,000, \$3,500 or \$4,000 respectively spent more than 70 per cent of their incomes for basic necessities. These income levels which determine the poverty line are very close to those arrived at by the Orshansky method in the U.S.A. The basic difference between the two methods is of course that, the Orshansky method is based on a minimum food standard arrived at by comprehensive and highly reliable food studies and surveys, while Miss Podoluk's method lacks the basis of a scientifically designed food budget and represents a value judgement based on observation of existing spending patterns.

(1)

J.R. Podoluk, Characteristics of Low Income Families in Canada, unpublished paper prepared for the Federal-Provincial Conference on Poverty and Opportunity held in Ottawa, December, 1965.

CONCLUSION

From the end of the nineteenth century to the present a considerable change in the concept and measurement of "Minimum Living Standards" took place. In the days of Louise Twining at the end of the last century the poor were generally considered eligible for outdoor relief only if their distress originated from incapacity for work, e.g. sickness, mental imbecility and age. As a result of more progressive thinking this concept changed in the beginning of the twentieth century to a concept of poverty defined solely in terms of subsistence criteria. Thus, Rowntree defined the poor as those "whose total earnings were insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency". Even though he did not explain what he meant by "merely physical efficiency," his concept was useful in the earlier phases of industrialization. However, it appears to be of less use in to-day's modern industrial communities as they exist in Canada, U.S.A. and the Western World. In these countries with increasing industrialization, a considerable affluence emerged which liberated large segments of the population from subsistence levels of living. As subsistence poverty declined in these countries social and economic inequalities continued to prevail. It became evident that poverty was a consequence of such inequalities and that it became a relative condition in that the improved standard of living of the poor is now related to a much higher general standard of living. This development led to the Townsend concept of poverty which states that people living in poverty are those whose resources over time fall seriously short of the resources commanded by the average individual or family in the community in which they live. This definition comes close to Fuchs's definition of poverty stating that the poor are those families whose income is less than one-half of the median income. However the view suggesting that poverty is entirely a relative matter appears to be too extreme to be accepted generally. A workable compromise method had to be developed which combines absolute and relative measurement. This has been achieved by rediscovering Engel's law and by attempting to measure the well-being of families by the discretionary income left after expenditures on food and the basic necessities. This method has been adopted in the United States by Miss Mollie Orshansky and by Miss J. Podoluk in Canada.

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PART II

FAMILY BUDGETS IN CANADA

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FAMILY BUDGETS IN CANADA

Family budgets have been developed and published in four cities of Canada: Toronto, Montreal, Winnipeg and Halifax. It appears however that original research on the subject has been limited to that conducted by the Montreal and Toronto councils of social planning agencies. The budgets published by these two agencies serve as the basic studies for the other reports. Thus The Minimum Financial Needs Investigation⁽¹⁾ published by the Age and Opportunity Bureau of Winnipeg is based on a study by Montreal Diet Dispensary, while the Halifax Family Budgeting Guide is based on the Guides for Family Budgeting⁽²⁾ prepared by the Social Planning Council of Toronto. Both the Winnipeg and the Halifax budgets were adjusted to local conditions. Of the four budgets only three relate to families of all types while the Winnipeg budget is limited to retired couples only.

TORONTO'S "GUIDE TO FAMILY BUDGETING"⁽³⁾

Among all studies, Toronto's budgeting is the most comprehensive and will be discussed first.

The main purpose of the Guide is to provide "a reference on adequate standards of living for specific categories of family expenditure and to serve as a statement of costs in meeting special categories of family need".

Concept

Basically the Toronto budget is a "moderate" budget. The level of living reflected is sufficiently above the subsistence survival level to secure good health and a sense of self-respect. On the other hand it is well below any level that could be called luxurious. Thus, the budget includes goods and services identified as bare or conventional necessities and a selection of those commonplace wants which are so important to the well-being of families that they rank with necessities.

Methods

Selected budget items were allocated to four technical committees (food, housing, clothing and miscellaneous

family needs) consisting of experts in the respective fields and social workers with considerable knowledge of patterns of family life. Committee members determined the quantity and quality of goods and services needed, and arranged for their pricing. Pricing was done by the Prices Division of DBS and volunteers who priced goods and services in outlets throughout Toronto. In updating prices the Consumer Price Index was used to revise cost categories where possible. Other categories were repriced in stores.

Development of the food budget

The five food groups of Canada's Food Guide were expanded to eleven categories to provide the complete range of food generally in use.

Studies of family food purchases provided guidance and judgements on the individual foodstuffs to be included in the food budget and on their relation, importance, or frequency of use.

A normative food budget was developed based on theoretical quantities of foods for individual consumption and then tested using the Canadian Dietary Standard⁽⁴⁾ and Canada's Food Guide⁽⁵⁾ as references.

Nine families carried out a one-week test with regard to quantities. Where amounts warranted revision in the light of actual experience, changes were made.

(i) Elderly people

The study points out that food needs of the older person differ from those of the average adult. The differences arise from the lower calorie requirement of the aged on one hand and the need for high protein food on the other. In terms of food prices these two factors tend to offset each other and in the respective budgets, food allowances for the aged are the same size as those provided for other adults with light employment.

(ii) Employed mothers

The food budget includes sufficient convenience foods (prepackaged and frozen foods) to reflect current

patterns of usage. With careful planning, employed mothers need spend no additional money on food.

Clothing

When developing clothing standards, the clothing committee was considering hygienic requirements, growth needs for children and teen-agers, and social acceptability.

The clothing budget represents average annual expenditures required to purchase sufficient clothing to maintain an adequate stock. The annual replacement rates are shown for specified age-sex groups and by employment status. Costs of dry cleaning and shoe repairs are included in the clothing budget.

Housing

Housing costs are based on the results of a telephone survey of 200 different apartment advertisements appearing in daily newspapers and involving a minimum of 429 unfurnished units. This information is presented as a general guide only since costs for unfurnished flats and houses were only approximately determined.

The following table gives a range of housing costs for Toronto:

	\$
Bachelor	95 - 115
One bedroom	118 - 135
Two bedroom	145 - 158
Three bedroom	170 - 185

Utilities and Fuel

Average quantities of gas and electricity for cooking, water, heating^(a), lighting and operating household appliances were supplied by utility companies. As there are no accurate means available to develop quantity standards, by family size, the quantities shown for electricity consumption by family size are estimated or adjusted to local average consumption.

(a) Apartment rents in Toronto usually include the cost of heating, while the rent paid for other types of accommodation do not.

Miscellaneous Family Needs

These needs include home furnishings, household operation, medical care, personal care, transportation, communication, reading, school and leisure time needs, insurance, gifts, contributions and relative personal needs.

None of the categories can be considered necessary for physical survival (except medical care). Those that were considered as conventional necessities were identified as such by the committee using as guides, studies of family expenditures and other budget standards.

Commonplace wants were identified, where possible, by application of a statistical norm: if 90 per cent or more of the reference population possessed or purchased a given good or service, it was assumed that it was of major importance to a sense of social acceptability and self-respect and was included (television set). One exception to this rule was made: an article possessed by less than 90 per cent of the reference population was included if, in terms of practicality and economy, in the judgement of the group it was necessary: e.g. a washing machine for families of four and more.

The standard for house furnishings and equipment was developed through three sources: studies of family expenditures and possessions, examination of other budget standards, and the inclusion of what seemed to be reasonable requirements for families meeting the minimum standard. The budget for home furnishings and equipment assumes gradual replacement of these items over the years, or depreciation over the expected period of use. Thus the average costs shown really represent savings required to maintain basic inventories of furnishings and equipment. The replacement rates shown reflect the expected life durability of the article. Thus if a chair expected to last 10 years is shown, one-tenth of the cost is included in the annual budget.

Personal

This item represents articles and devices ordinarily needed by individuals, according to age, sex and employment

status. The standard for personal care was developed through the use of existing budget standards and consumption studies and guides.

Transportation

The transportation budget for travel within Metropolitan Toronto is based on current fares of the T.T.C. For outside Toronto, the budget has made provision for an annual total of 200 miles (round trip) outside Metropolitan Toronto.

Communication, Reading and School Needs

The budget covers the costs of a telephone and nominal amounts of writing paper, greeting cards, postage and related supplies. The budget for reading includes the cost of an annual subscription to a local newspaper and a Canadian magazine.

Special School Needs

Expenses incidental to schooling vary from school to school and costs were estimated according to the situation in various areas.

Household expenditures

Amounts required for all items of household operation were developed through analysis of other budget standards, in addition studies of family consumption and expenditures were consulted.

Health and Medical Care

Ontario hospital insurance has been adopted as the standard on which to compute individual hospital care costs.

To compute medical care costs Ontario's Medical Services Insurance Plan premiums have been taken as a basis.

Dental costs were computed with the assistance of specialists in the field. Premiums of Blue Cross prepaid dental care plan were used to determine average yearly dental costs. Costs represent an average yearly cost in the long run.

Costs of other medical care needs including prescription drugs were estimated by adding a proportion to medical, dental and hospitalization costs. This proportion is derived from percentage of expenditures on personal health care in Canada for 1961(6) for the same services.

Gifts, Contributions, Leisure Time and Related Personal Needs

Extreme variability in individual practices marks this area and costs shown are intended only as general guides in family budgeting. These costs were developed by assuming expenditures for certain items although the actual use to which these amounts will be put will vary with individual customs.

BUDGET PREPARED BY THE MONTREAL COUNCIL OF SOCIAL AGENCIES (7)

The agency prepared in 1963 a minimum and a moderate cost family budget. The minimum cost budget relates to elderly persons living alone, retired couples and families of 3 to 6 persons. The moderate living cost budget deals with newly married couples and families of 3-6 persons with a monthly income from \$300 to \$600.

Only the minimum cost family budget is being updated, and hence is discussed here. This budget includes the commodities and services required to meet basic needs for the maintenance of a minimum standard. It does not provide for new furniture or furnishings, savings, medical and dental care or drugs, gifts, recreation and telephone.

Methods

A budget committee was formed which began its work with an examination of various budgets being used by local welfare agencies. Contents and scales of these were studied in relation to the philosophy and objectives of welfare programs. Based on the results of this study the committee then developed a desirable minimum budget for families and individuals who are in need of financial aid in the Montreal area.

Eight components were selected by the committee and priced by volunteers and students under the supervision of various committee members. They are as follows:

Food

Kinds and amounts of foods as required for each individual according to age and sex were selected by experts to meet nutritional requirements recommended by the Canadian Council on Nutrition in the Canadian Dieting Standard of 1948. These items were priced and are being repriced in a number of food markets and at least one independent store. Pricing takes place in January, May and September. Its purpose is not only to keep up-to-date with market conditions but also to keep track of new products. A copy of pricing instructions is shown in Appendix 1.

Clothing

The allowances were based on a survey of home-makers who were asked about the kinds and amounts of clothing which are required for individuals according to age and sex to meet minimum clothing needs for health and self respect. The results were then modified and corrected. In doing so the agency took advantage of relevant information published in Annual Price Survey of Family Budget Costs by the Budget Standard Service of the Community Council of greater New York.(8)

Housing

The standard of housing adopted by the Agency is relatively low. Allowances for rents are based on the survey results of low cost housing in Montreal in 1963. Only cold water unheated flats were selected for this survey, as the rent of this type of accommodation even after adjustment for cost of fuel is considered as much cheaper than heated apartments.

In addition to the survey conducted in 1963, the Agency is also informed on current rents by the provincial housing authority which provides rent data on both controlled and market rents.

Rents for single persons were derived from a survey on allowances paid by the various welfare agencies in the area.

Personal care

In determining a standard for minimum adequate personal care the Family Budget Standard of New York was adopted as a guide. The kinds and amounts of goods and services selected for the individual schedules represent the minimum necessary for the care of teeth and hair and personal cleanliness.

Household supplies

The Committee selected the kinds and amounts of goods which in their opinion would provide minimum supplies for cleanliness and effective operation of a household.

Utilities

Quebec Hydro and one of the fuel companies acted as consultants in providing consumption data for cooking and heating. Schedules for electrical power consumption are calculated according to family size and fuel consumption according to number of rooms to be heated.

COMPARISON OF THE TORONTO AND MONTREAL FAMILY BUDGETS

The two budgets as seen in the table below are not quite comparable. The Toronto budget, being more liberal in concept includes allowances for a number of items, not provided for in the subsistence level Montreal budget. Thus, medical, dental and nursing care as well as life insurance and union fees are excluded from the Montreal budget. It should be noted however that the Quebec Hospital Plan provides in- and out-patient services for all persons and together with other provincial and municipal health programs provide some of the services needed.

An item by item comparison of these budgets as reflected in the table below, indicates that Toronto's food allowances are slightly higher than those of Montreal for adults and much larger for growing children.

Allowances for clothing are also larger in Toronto. While allowances for shelter are not yet finalized, indications are that shelter allowances in Toronto will be higher because of the higher housing standard adopted and the method used in determining rents. Montreal shelter allowances are based on two bedroom unheated flats. This choice reflects the thinking that the heating of a dwelling unit with a space heater is considered more economical than central heating adopted in Toronto. Toronto makes allowance for the usage of a telephone while in Montreal no such allowances are made, not even for the aged. Replacement costs in the Toronto budget include annual replacement rates required to maintain adequate inventories of house furnishings and equipment to operate the household. No allowances for replacement of furnishings are made in the Montreal budget. Allowances for personal care are also much lower in Montreal.

MONTHLY COSTS OF FAMILY BUDGETS IN TORONTO AND
MONTREAL DESIGNED FOR A FAMILY OF FOUR (WITH
TWO CHILDREN, A BOY AGE 4 AND A GIRL AGE 6) ⁽¹⁾

	<u>Toronto</u> \$	<u>Montreal</u> \$
Food	98.59	84.55
Rent (2)	150.00	101.00
Clothing	36.40	32.67
Personal Care	14.00	7.47
Household Supply	8.51	4.88
Replacements	7.41	3.79
Transportation	13.93	18.00
Communication and reading and school needs	9.62	3.15
Recreation and Gifts	<u>20.93</u>	<u>19.30</u>
	359.39	274.81
Life insurance	5.00	
Medical Care	12.50	
Dental Care	16.80	
Hospital Care	6.50	
Other Medical Needs	<u>4.90</u>	
	45.70	
Total	405.09	
Annually	\$4,861.08	\$3,297.72

(1) Data relate to 1967, the latest year for which Toronto data are available.

(2) Estimated, includes fuel and utilities.

MONTHLY COSTS OF FAMILY BUDGETS IN TORONTO AND
MONTREAL DESIGNED FOR A RETIRED COUPLE 1967(1)

	<u>Toronto</u> \$	<u>Montreal</u> \$
Food	57.99	61.27
Rent	130.00 (2)	79.28
Clothing	15.94	12.07
Household supplies	5.27	2.44
Personal Care	7.77	5.57
Replacement	5.17	3.79
Transportation	5.20 (3)	5.00
Newspapers		2.82
Other	<u>16.00</u>	<u>13.46</u>
	243.34	185.70
Life insurance	5.00	
Medical Care	10.00	
Dental Care	9.60	
Hospital Care	6.50	
Other Medical Needs	<u>3.57</u>	
	34.67	
Total	278.01	
Annually	\$3,336.12	\$2,228.40

(1) Figures reflect averages and are not quite comparable.

(2) Estimated.

(3) Within Metropolitan Toronto only.

A comparison of budgeting for retired couples indicates differences of the same nature as for families. There is one exception however, the food allowance for retired couples in Montreal is higher.

After deducting federal and provincial contributions and allowances the net income needed to cover the budget for an old aged couple amounts to \$43 in Montreal. No such calculation was prepared in Toronto.

On the whole, budgeting methods used in both cities were rather similar. There was one exception however, the determination of rents. Toronto conducted a rent survey limited to vacant dwellings, while Montreal relied on statements of the City's Housing Authority. In normal circumstances housing authorities have more reliable data on rents since they have information on rents of both occupied and vacant units. Also they themselves must conduct rent surveys in order to price their own rental units. A rent survey on vacant units as conducted by Toronto on the other hand may result in overstatement of rents especially in a rapidly increasing rental market.

Other differences in budgeting may be the result of basing the calculation of the cost of various budget components on different U.S. budget studies. Ideally such calculation should be based on data derived from Canadian surveys which should show regional and intercity variations. However because of the lack of reliable data for low income families on city basis this is at present impossible. Unless adequate data are produced by DBS, agencies will have to continue to base their calculations on data derived from U.S.A. surveys.

COMPARISON OF BUDGET METHODS USED IN CANADIAN CITIES AND BY THE BUREAU OF LABOUR STATISTICS OF THE USA

In 1966, the Bureau of Labour Statistics constructed family budgets to translate a generalized concept of a moderate living standard into a list of commodities and services which were then priced. Two kinds of data were used, (a) nutritional and health standards based on laboratory experiments or derived from scientific observation, (b) data based on spending practices of representative samples of urban families of the same type as that for which the budget was to be prepared. These latter data were derived from the Bureau's survey of Consumers' Expenditure and related consumption studies.

The two kinds of data represent two different concepts. Scientific data are based on the studies of the relation between consumption and health and are expressed in form of normative statements. Spending practices on the other hand as shown in expenditure surveys represent the

choices made by consumers. In the BLS method of budgeting, the two concepts are blended to the extent that scientific standards are used where available and applicable, supplemented by the analysis of statistical data on family spending.

The two concepts were combined in the following way. For food, the National Research Council had developed scientific standards which were translated in food plans at different cost levels. Regional consumption patterns for specific foods were used in estimating costs. The data were taken from the 1965 Food Consumption Survey of the Department of Agriculture. For shelter, rents were derived from a rental survey of standard dwellings. The standards were those established by the American Public Health Association and the U.S. Public Housing Administration. For transportation and medical care as well as for the remainder of the consumption total, the prevailing practices based on analytical studies of the Bureau's Survey of Consumer Expenditures were used in developing allowances.

In the light of the BLS approach the Canadian method of determining budget quantities and qualities can be easily criticized as being normative and not based on the collective judgement of the consumer families. However, it should be kept in mind that the BLS budgets are for middle income people whose spending habits can be easily adopted in moderate budgets. The Montreal and Toronto budgets on the other hand are designed for low income people whose spending habits will not conform in certain aspects to prevailing customs.

The question arises, then, to what extent should budgets be determined by scientific or normative judgements and to what extent by current consumer patterns. It appears that the closer budgets are to a mere subsistence level the more scientific judgement should be used for developing a "standard to maintain health and self respect". This applies mainly to those budget components which represent basic necessities. For components representing commonplace wants, results of family expenditure surveys and other budget studies may be used. Unfortunately adequate Canadian data are scarce and both the Toronto and Montreal budgets have had to resort to American studies rather than to current Canadian data derived from national or regional surveys.

CONCLUSION

The foregoing examination of family budgets in Toronto and Montreal and the contrast of these budgets with each other and with family budgets developed by the Bureau of Labour Statistics represents a preliminary examination of family budgets which may be suitable for determining a minimum living standard for low income families in Canada. The two low income budgets developed for Toronto and Montreal are the most comprehensive that we have in Canada, and were designed to provide a living standard adequate to preserve health and decency. These two budgets have their limitations because they are essentially normative budgets and do not take into consideration the spending patterns of low income families. While the Bureau of Labour Statistics combines the normative and empirical approaches to budgeting, they do so for persons with moderate living standards. In our study on minimum living standards, we are concerned with persons with low incomes. In Canada there are no adequate data on the consumer spending patterns for low income families. The DBS consumer expenditure and food expenditure surveys essentially concentrate on middle income families. Even when DBS takes low incomes into account, it is felt that the low income families and individuals are not adequately represented in the Labour Force sample used by DBS for these surveys.

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APPENDIX 1

MONTREAL DIET DISPENSARY

PRICING NOTES

December 1967

- 1 - Object in pricing To determine Individual Minimum Adequate Food Cost and to keep up to date with market conditions and new products.
- 2 - Occurrence Pricing takes place in January, May and September, usually on a Tuesday since few "specials" occur on that day. Prices are collected in three stores on the same date.
- 3 - Stores The stores used are at present in Verdun, where the agency's rentals are also obtained.
 - A - Large chain (Steinbergs)
 - B - Medium-sized chain (Dominion)
 - C - Small independent (I.G.A.)
- 4 - Pricing procedure
 - A - Permission from manager must be granted to conduct pricing, preferably by phone a few days in advance. When entering stores, worker should identify herself, and, if possible, when finished, thank the manager.
 - B - Collect in duplicate the prices for foods on agency's price list.
 - C - If the weight or size specified is not available, take closest available size or weight for that product.
 - D - Collect prices for all foods indicated, taking the least expensive but no specials.

- E - Ask head butcher for prices of meat items not on display and see product if possible.
- F - Phone milk and bread companies for price as delivered.
- G - For 10-D cod liver oil, phone a drugstore in pricing area for cost of the 16-oz. bottle.

5 - Calculations of prices

NOTE: It is very important that all stages of calculations be checked independently by a second person

A - Unit Price

- 1 - The middle price of a given product is usually chosen.
 - a - Where 2 prices out of 3 are the same, use the price of the 2 thus representing $\frac{2}{3}$ of the shoppers buying this item.
 - b - When only 2 stores have an item, choose the lower price.
 - c - Exclude the price of any product that is unusually high or low.
- 2 - When decimals are used in setting the price of one unit, the figure is established to the 2nd place.

EXAMPLE:

If the last decimal is .004 or less drop it.

If the last decimal is .005 count it as $\frac{1}{2}$ cent.

If the last decimal is .006 or above, carry to the next whole number.

B - The Cost of the weighted amounts

- 1 - When calculating the cost, the unit price is used.
- 2 - The cost is calculated according to the amount listed in Diet Dispensary Standardized Weighted Amounts.
- 3 - Calculate 4 places and correct to the 3rd place. Drop below .0005 and carry to the next whole number.
Example: .0014 = .001
.0015 = .002

C - The Food Group Price

- 1 - Determine the cost per pound of each food group by dividing the total cost by the total amount for each group.
- 2 - Calculate 4 places and correct to the 3rd, eg.
Example:
If the last decimal is 1, 2 or 3 - drop it
If the last decimal is 4, 5 or 6 - count as $\frac{1}{2}$
If the last decimal is 7, 8 or 9 - carry to next whole number.
- 3 - As soon as group prices are completed, compare them with the group prices for the preceding pricing, also with the previous year, and submit to Mrs. Higgins for final checking. Do not start calculating multiples, individual food costs and special diet costs until above checking has been made.

- 4 - To avoid delay, when checking has been done, give at once this part to the secretary to type the stencils.
- 5 - After food group prices are checked, circle them and enter on multiple work sheet.

D - Multiples of the Food Group Price

- 1 - Calculate the useful multiples of the food group prices which will be later applied to Individual Food Costs.
- 2 - Calculate each multiple individually with Food Group Price relating to the cost per lb.

Example:

For 7 oz cost take 7/16 of the price not 7 times the cost of 1 oz.

- 3 - Calculate 4 places and correct to 3rd place dropping the last number if below 5, and carrying to the next whole number if 5 or above.

E - Individual Food Costs & Special Diet Cases

- 1 - Use multiple food group prices in calculating the special diet food list to determine the weekly food cost.
- 2 - To find daily cost, divide weekly food cost by 7.
- 3 - To find monthly cost, multiply weekly food cost by 13/4.

- 4 - The daily, weekly and monthly prices in the Individual Minimum Adequate Food Costs sheet must be expressed to two decimal places. Drop if last decimal is below five, carry to next whole number if 5 or above 5.

Example:

$$.937 = .94$$

$$.935 = .94$$

$$.934 = .93$$

- 5 - To establish published figure for minimum adequate per capita daily cost for family of 5 (man, woman, children age 12, 10 and 6), total the weekly food costs for each individual and divide by 35, calculating to the 3rd place (or 4th if doubtful).

Example:

$$.651 \text{ to } .655 = .65\frac{1}{2}$$

$$.656 \text{ to } .659 = .66$$

- 6 - For purpose of comparison, enter per capita daily food costs both on graph and on the summary sheet.

